

Ms. Linda A. Holtzscheiter, Reimbursement Manager
Mariner Post-Acute Network
15415 Katy Freeway, Suite 800
Houston, Texas 77094

Re: AC# 3-JOL-J7 – GCI Jolley Acres, Inc., d/b/a Jolley Acres Healthcare Center

Dear Holtzscheiter:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1996 through September 30, 1997. That report was used to set the rate covering the contract periods beginning October 1, 1998.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

**GCI JOLLEY ACRES, INC., D/B/A
JOLLEY ACRES HEALTHCARE CENTER
ORANGEBURG, SOUTH CAROLINA**

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1998
AC# 3-JOL-J7**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 30, 2000

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with GCI Jolley Acres, Inc., d/b/a Jolley Acres Healthcare Center, for the contract periods beginning October 1, 1998, and for the twelve month cost report period ended September 30, 1997, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by GCI Jolley Acres, Inc., d/b/a Jolley Acres Healthcare Center to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and GCI Jolley Acres, Inc., d/b/a Jolley Acres Healthcare Center dated as of September 30, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
June 30, 2000

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

JOLLEY ACRES HEALTHCARE CENTER

Computation of Rate Change
For the Contract Periods
Beginning October 1, 1998
AC# 3-JOL-J7

	<u>10/01/98- 11/30/98</u>	<u>12/01/98- 09/30/99</u>
Interim reimbursement rate (1)	\$83.01	\$83.76
Adjusted reimbursement rate	<u>81.17</u>	<u>81.92</u>
Decrease in reimbursement rate	\$ <u><u>1.84</u></u>	\$ <u><u>1.84</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 3, 1999

JOLLEY ACRES HEALTHCARE CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1998 Through November 30, 1998
AC# 3-JOL-J7

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$29.98	\$50.70	
Dietary		7.99	10.41	
Laundry/Housekeeping/Maint.		<u>6.54</u>	<u>7.86</u>	
Subtotal	\$ <u>4.83</u>	44.51	68.97	\$44.51
Administration & Med. Rec.	\$ <u>-</u>	<u>16.09</u>	<u>11.13</u>	<u>11.13</u>
Subtotal		60.60	<u>\$80.10</u>	55.64
<u>Costs Not Subject to Standards:</u>				
Utilities		2.08		2.08
Special Services		5.52		5.52
Medical Supplies & Oxygen		4.14		4.14
Taxes and Insurance		1.90		1.90
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$74.24</u>		69.28
Inflation Factor (3.60%)				2.49
Cost of Capital				8.34
Cost of Capital Limitation				(.94)
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				4.83
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.08)
Minimum Wage Add-On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$81.17</u>

JOLLEY ACRES HEALTHCARE CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Periods December 1, 1998 Through September 30, 1999
AC# 3-JOL-J7

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Cost of Capital				8.34
Cost of Capital Limitation				(.94)
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				4.83
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.08)
Minimum Wage and CNA Add-Ons				<u>1.00</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$81.92</u>

JOLLEY ACRES HEALTHCARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-JOL-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$ 653,229	\$ -	\$ 1,016 (1) 4,385 (2) 4,251 (3) 6,618 (4)	\$ 636,959
Dietary	169,740	-	-	169,740
Laundry	46,898	-	-	46,898
Housekeeping	45,649	-	-	45,649
Maintenance	45,818	1,168 (2)	619 (5)	46,367
Administration & Medical Records	332,119	1,288 (2) 1,804 (2) 6,618 (4)	-	341,829
Utilities	44,086	125 (2)	-	44,211
Special Services	116,612	618 (5)	-	117,230
Medical Supplies & Oxygen	117,625	-	29,658 (5)	87,967
Taxes & Insurance	40,361	-	-	40,361
Legal Fees	-	-	-	-
Cost of Capital	<u>149,763</u>	<u>27,654</u> (6)	<u>167</u> (1)	<u>177,250</u>
Subtotal	1,761,900	39,275	46,714	1,754,461

JOLLEY ACRES HEALTHCARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-JOL-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Ancillary	103,467	-	-	103,467
Non-Allowable	1,262,454	1,183 (1) 4,251 (3) <u>29,659 (5)</u>	27,654 (6) <u> </u>	1,269,893 <u> </u>
Total Operating Expenses	<u>\$3,127,821</u>	<u>\$74,368</u>	<u>\$74,368</u>	<u>\$3,127,821</u>
TOTAL PATIENT DAYS	<u>21,243</u>	<u>-</u>	<u>-</u>	<u>21,243</u>
TOTAL BEDS	<u>60</u>			

JOLLEY ACRES HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-JOL-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$12,400	
	Other Equity	1,430	
	Nonallowable	1,183	
	Accumulated Depreciation		\$13,830
	Restorative		1,016
	Cost of Capital		167
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Maintenance	1,168	
	Administration	1,288	
	Medical Records	1,804	
	Utilities	125	
	Nursing		4,385
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk State Plan, Attachment 4.19D		
3	Nonallowable	4,251	
	Nursing		4,251
	To disallow expense due to lack of documentation HIM-15-1, Section 2304		
4	Medical Records	6,618	
	Restorative		6,618
	To reclassify salaries and related fringe benefits to the proper cost center HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
5	Special Services	618	
	Nonallowable	29,659	
	Maintenance		619
	Medical Supplies		29,658
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		

JOLLEY ACRES HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-JOL-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Cost of Capital Nonallowable	27,654	27,654
	To adjust capital return to allowable State Plan, Attachment 4.19D		
		_____	_____
	TOTAL ADJUSTMENTS	<u>\$88,198</u>	<u>\$88,198</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

JOLLEY ACRES HEALTHCARE CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 1997
 AC# 3-JOL-J7

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.1814</u>	<u>2.1814</u>	
Deemed Asset Value (Per Bed)	34,069	34,069	
Number of Beds	<u>40</u>	<u>20</u>	
Deemed Asset Value	1,362,760	681,380	
Improvements Since 1981	259,852	42,461	
Accumulated Depreciation at 9/30/97	<u>(440,495)</u>	<u>(58,809)</u>	
Deemed Depreciated Value	1,182,117	665,032	
Market Rate of Return	<u>0.067</u>	<u>0.067</u>	
Total Annual Return	79,202	44,557	
Return Applicable to Non-Reimbursable Cost Centers	(554)	(271)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>5</u>	<u>2</u>	
Allowable Annual Return	78,653	44,288	
Depreciation Expense	28,932	25,070	
Amortization Expense	133	547	
Capital Related Income Offsets	-	-	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(249)</u>	<u>(124)</u>	<u>Total</u>
Allowable Cost of Capital Expense	107,469	69,781	\$177,250
Total Patient Days (Minimum 97% Occupancy)	<u>14,162</u>	<u>7,081</u>	<u>21,243</u>
Cost of Capital Per Diem	\$ <u>7.59</u>	\$ <u>9.85</u>	\$ <u>8.34</u>

JOLLEY ACRES HEALTHCARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1997
AC# 3-JOL-J7

6/30/89 Cost of Capital and Return on Equity		
Capital Per Diem Reimbursement	\$2.19	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	\$ <u>6.18</u>	\$ <u>9.85</u>
Reimbursable Cost of Capital Per Diem		\$7.40
Cost of Capital Per Diem		<u>8.34</u>
Cost of Capital Per Diem Limitation		\$(<u>.94</u>)